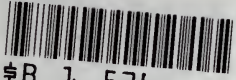
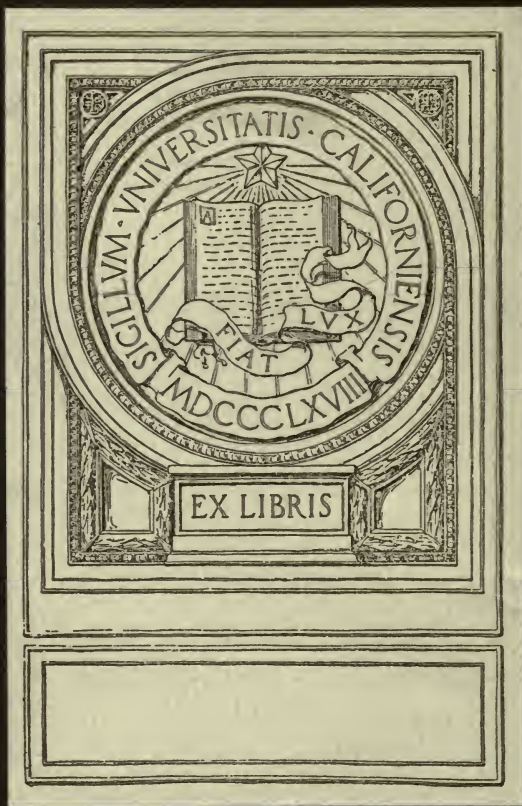


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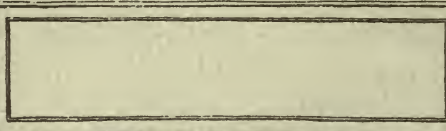
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# An Ideal Accounting System

for a

## Retail Bookstore

By DEWITT CARL EGGLESTON, C. P. A.

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### Control by Means of Accounting System

**T**HE retail book business is peculiar in many ways. A feature which one who undertakes to make a study of the business notices, is the great amount of detail in proportion to the volume of business done. Because of the amount of detail involved the proprietor of a retail book store cannot rely solely on his memory or powers of observation to control his business. The proprietor requires a system which will relieve him from carrying in his head as much of this detail of management as possible. The first step in exercising control over the business of a retail book store is the introduction of a modern accounting system, if one is not already in operation, which is just adapted to the needs of the business. An accurate system of accounts and records is necessary whether the books are kept by the proprietor after hours, or by a regular bookkeeper. There are certain principles to be observed in the operation of an "Ideal Accounting System for Retail Book Stores" whether large or small.

### Income Tax Requirements

In these days of income taxes one is compelled to keep books in such a way that he can prepare the returns required by the U. S. Government. In view of the fact that certain information is required on the Income Tax forms it is desirable that the books of a retail book store be kept in sufficient detail to permit of the returns being prepared with as little loss of time as possible. In order to be able to furnish all of the information required one should maintain a detailed analysis of all expenses. As few items as possible should be charged to such accounts as "Miscellaneous," as the Government is likely to ask for an analysis of the account and this requires time which could be

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*NOTE: The publication of this pamphlet, based upon an article read by the author at the convention of the American Booksellers' Association, has been delayed through the desire of Mr. Eggleston to include with it a simple set of forms, suitable for any store. Because of a wide divergence of opinion, it has not been possible to devise these forms up to the present. Accordingly we have decided not to delay the publication of the pamphlet further, but to send the forms whenever Mr. Eggleston is able to complete them.*

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avoided. Care should be taken to see that all drawings of a proprietor for personal use are charged to his account and that all drawings chargeable to expense are charged to the proper expense accounts. Proper vouchers should be kept on file covering all expenditures.

### **Exchange of Information**

If the members of the American Booksellers' Association could agree on a uniform system of accounts and would keep their books in accordance with sound accounting principles it would furnish a basis for exchange of information as to the cost of doing business. In order to make a comparison between the cost of doing business in one book store and that of doing business in another book store it is obvious that the corresponding items of expense must be included in each case. No doubt great benefit could be obtained thru an exchange of information by members of the Association as to the ratio which each item of expense bears to the sales. In order to do this it will be necessary for the Association to adopt a uniform classification of accounts. There is no reason why the American Booksellers' Association should not do for its members what the Harvard Graduate School of Business Administration has done for the retail shoe dealers in showing the members what accounts to keep and what items should be charged to each account. After the members have adopted a uniform system of accounts reports can be prepared showing the ratio of each item of expense to sales and sent the secretary who can arrange to have them compiled and averages figured. After the work of tabulation has been completed the secretary can send out reports to the members showing the expenses in proportion to sales for different groups according to amount of business done. By the use of a system of key numbers the work could be done in such a way that there would be no way whereby information relative to any particular member's business could leak out. After receiving his report a member could compare his expense ratios with those for book sellers in his class and see wherein he has excessively heavy items. By this means a check can be obtained on leaks.

Appended to this report could be sales statistics showing how sales compare with the preceding month, and with the corresponding period of the year previous by groups. By this means each member could be kept in touch with the trend in the book business. This data could be charted.

### **Average Cost of Doing Business**

A great deal has been accomplished by concerted action on the part of groups of individuals and firms in the same line of business. In case it develops that the retail booksellers are conducting their business efficiently and still are not making the proper percentage of profit on sales the Association will be in a better position to take up the matter of more generous trade discounts with publishers.

The salient features of an "Ideal Accounting System for Retail Book Stores" will now be explained.

### **Preparing a Financial Statement Monthly**

The amount of business done by a retail book store is generally sufficient to warrant the expenditure of the time required to keep the books by the double entry system as explained in all books on bookkeeping. This system furnishes a means of analyzing the business transactions not possessed by any

other system. In order that the proprietor may know just where he stands financially at the end of each *month* he should prepare or have prepared for him a balance sheet. This statement shows the assets, liabilities and capital as at the close of business on the last day of the month. When the books are properly kept an increase or decrease in the proprietorship or capital account as compared with the preceding month will reflect the profitableness or unprofitableness on the undertaking for the month. If the results shown indicate that the present policy is yielding a good profit, the proprietor has nothing to worry about on the one hand, but if the results obtained from operations are not what they should be, the proprietor knows that he should look around for ways and means with which to make a better showing.

The accounts on the balance sheet should be arranged in a systematic order. On the left hand side are set down the assets (things owned) and on the right side are entered the liabilities (things owed). The difference between the assets and liabilities, if the former exceeds the latter as is the case usually, is the proprietorship or capital. For a retail bookseller the best plan is to list the current assets first and then the other assets on the left. Then on the right come the current liabilities followed by the other liabilities.

In a typical retail book business the current assets appearing on the balance sheet would be Cash, Accounts Receivable and Merchandise Inventory. The other assets would include such items as Furniture and Fixtures and prepaid Insurance. On the liability side the current items would be Accounts Payable and Notes Payable. Liabilities which do not have to be paid for a considerable period of time are classed as other liabilities on a balance sheet. When a banker looks at a balance sheet he likes to see the ratio of current assets to current liabilities at least two to one.

### Book Inventories

In order to prepare a balance sheet *monthly* as recommended, it is necessary to place a valuation on the stock of merchandise. It is of course impractical to take a physical inventory and figure it at the close of each month, and so some other expedient must be adopted for those months when a regular inventory is not available. The system which many of you use and which is recommended for the "Ideal Accounting System for Retail Book Stores" is called the "Mark-up on Sales" system. The system consists in applying a percentage to the monthly sales in order to ascertain the gross profit on sales. The sales less the gross profit gives the cost of sales. With these data it is an easy matter to place a valuation on the merchandise stock for statement purposes. The method of procedure is as follows: The inventory at the beginning of the period, plus purchases for period, less cost of sales, gives inventory at the end of period. This is the figure to use for the merchandise inventory on the balance sheet.

There are several ways of obtaining the "mark-up" percentage on sales to use in figuring the gross profit each month. The easiest method is to base the percentage on past experience. One large retail book store has used 36 per cent. as the mark-up on sales for the past three years and states that this rate does not vary one per cent. from actual experience. Another book store uses 35 per cent. as the mark-up.

In case any book store proprietor does not want to make use of an average based on past experience he can arrive at the actual mark-up percentage on

sales as follows: When invoices for purchases are received from publishers the invoices show both the gross and the net price. By looking at an invoice for 200 books at \$5.00 less 40 per cent., making \$600.00 net, one sees that the gross profit is of course \$400.00 or 40 per cent. By providing a separate column in the purchase journal for recording the total price in addition to the net price, the average percentage of mark-up on purchases can be readily arrived at each month. It is then necessary to combine these figures with the initial inventory at cost and selling price and obtain an average mark-up percentage on stock. This percentage can then be used on the sales for the month in figuring the amount of gross profit and the cost merchandise sold.

A separate record should be kept of "reductions" made in the selling price or allowance made when valuing merchandise to cover shop worn books. Then "reductions" are a charge to the expense of doing business.

### Monthly Profit and Loss Statement

By applying the mark-up percentage on sales, as explained, the gross profit on sales is arrived at. It is then an easy matter to prepare a monthly profit and loss statement. From the gross profit on sales is deducted the expenses for the month in order to arrive at the net result of operations.

It oftentimes happens that a sole proprietor will not charge the business for his salary as an expense of operations. So far as the final result is concerned the proprietor's capital will be the same, no matter whether salary is charged to expense or to capital account. However, from a "cost of doing business" point of view it makes a lot of difference. In order to obtain a complete statement of the expenses the proprietor should make a practice of charging his salary to expense and crediting his drawing account. The amount of the salary charge should represent the market value of the proprietor's time. This method of procedure need not confuse one when preparing income tax statements. The proprietor's income is equal to his drawings plus the profit earned as shown by the books after drawings have been charged up.

It should be the practice to include in the expenses an allowance to cover depreciation on all equipment used. The most convenient method to use for figuring depreciation is to take say 10 per cent. off each year on the original cost of the equipment which has worn out or become obsolete. This should be shown as a deduction from the original cost.

By means of the system recommended the retail bookseller is able to know his profits for each month. He should then divide the amount of his capital investment as shown on the balance sheet into the net profit for the month in order to obtain the yield on the investment. The profitableness of the undertaking is measured by the rate of return of the investment.

### Stock Turnover

Whether a store has one or several departments a record should be made of the rate of stock turnover. By this is meant the number of times the stock is sold, on an average, in a year. The rate is obtained by dividing the average stock of merchandise in a department at *selling* price into the sales. If this is done monthly the rate when obtained is stated on an annual basis. Thus the rate of turnover in Department A may be 3 per annum, in Department B, 4 and so on. The stock turnover rate is sort of index of efficiency. According to the margin of profit available on different lines there is a mini-

mum rate of turnover below which it is unprofitable to do business. Some department stores claim that they cannot afford to carry a line unless a turnover of at least three a year can be obtained. The average annual rate of turnover in department stores is reported to be a little better than four.

### Analysis of Expenses

The "Ideal Accounting System for Retail Book Stores" provides for a detailed analysis of expense under appropriate headings. The following expense classifications are suggested to be followed in making up statements of the cost of doing business:

- Salary, Proprietor
- Salaries, Regular
- Salaries, Extra Help
- Overtime (suppers)
- Rent
- Postage, Printing and Stationery
- Advertising
- Delivery
- Telephone
- Freight
- Express
- Insurance
- Window Dressing
- Collection Fees
- Repairs
- Electric Light
- Ice
- Towel Supply
- Taxes
- Interest

After an analysis of expenses for the current month has been prepared the expenses for prior months, since the beginning of the year, should be added in order to obtain a statement of expenses to date. In order to be of the greatest usefulness this statement of expenses to date should be made comparative in form, and the increases and decreases of the current year over or under the prior year for the corresponding year shown.

### Apportionment of Expense to Departments

A special problem is met with when a store sells other kinds of merchandise than books. The problem is to find the proper basis for distribution of the expense of doing business over the various departments. This is of course an important matter in order to ascertain the net profit on the operations of each department. The first step in the apportionment of expense is to take the major items such as salaries, rent and advertising and divide them on some equitable basis. Salaries should be charged to those departments where the salespeople are assigned. Rent should be distributed to selling departments in proportion to the space occupied by each. Advertising in the daily papers should be charged to the departments which have their merchandise advertised in proportion to the space used. Those expense

items which cannot be charged directly to departments on some equitable basis should be allocated to departments in the proportion which the sales of each department bear to the total sales of the store.

### Operation of General Ledger

It is necessary for the retail bookseller to keep a general ledger in order to be able to make up the statements required for his own information as well as governmental returns. This book should be in bound form with standard ledger ruling. Pages should be headed up with the names of the various accounts required. The arrangement of the accounts should follow the order of the accounts on the financial statements. The order of accounts is as follows: Assets, Liabilities, Capital, Profit and Loss. In order to open the general ledger it is necessary first to prepare a statement showing the assets and liabilities at a certain date. From this statement the accounts in the general ledger can be opened. Postings are made to the general ledger from the cash book, purchase journal, sales book and journal. Provision is made in the front of the general ledger for making an index of the accounts. From the general ledger the balance sheet and profit and loss statements are made up at the close of each month.

### Accounts Receivable Ledger

When there are a good many charge customers it is a good plan to remove the customer's accounts from the general ledger and place them in a separate ledger. The accounts receivable ledger, as the customers' ledger is called, should be loose leaf in form. The customers' ledger sheets should be arranged behind alphabetical index guides for convenience in reference. A controlling account must be inserted in the general ledger. At the close of each month a trial balance of accounts payable ledger should agree with the balance to the controlling account in the general ledger.

### Cash Book

The "Ideal Accounting System for Retail Book Stores" should provide for using a columnar form of cash book. The operation of the general accounts receivable and accounts payable ledgers in accordance with the plan above outlined requires that the cash book be operated in a certain prescribed fashion. The headings for the received side of the cash book are as follows:

Date	
Name	
Folio	
Accounts Receivable Ledger	Cr.
Sales Discount	Dr.
Cash Sales (if not in general column)	Cr.
Net Cash	Cr.
General Ledger	Cr.
Bank Columns	
First Bank	
Second Bank	



The headings for the disbursed side of the cash book are as follows:

Date	
Name	
Folio	
Accounts Payable Ledger	Dr.
Discount	Cr.
Net Cash	Cr.
General Ledger	Dr.
Bank Columns	
First Bank	
Second Bank	

In case only one bank is used the net cash column can be dispensed with and the bank column used.

The rule should be adhered to that all cash receipts should be entered in the cash book and deposited in the bank. All disbursements should be by check. When a remittance is received from a charge customer the amount of the original charge covered by the remittance is entered in the "Account Receivable Ledger" column, any discount allowed in the "Discount" column, and the net cash in the net cash column, the amount of the bank deposit is entered in the bank column. The general ledger column provides a means for entering such cash receipts as are to be credited to general ledger accounts.

When checks are drawn in favor of publishers or others with whom accounts are kept, the amount of the invoice settled is to be entered in the "Accounts Payable Ledger" column, any discount received in the discount column and the net cash in the net cash column. Checks to be charged directly to general ledger accounts are to be entered in the general ledger, and net cash columns.

A separate fund should be established for the petty cash and minor payments made from it. When the petty cash fund requires replenishing a check should be drawn on the bank for the amount necessary. The accounts to be charged are shown by the entries in a petty cash book kept for the purpose.

The individual items in the "Accounts Receivable Ledger" column in the cash book should be posted to the credit of the individual customers' accounts. The items in the "Accounts Payable Ledger" column in the cash book should be footed and postings made to the general ledger. Each month the correctness of the cash balance should be proved by making a reconciliation with the bank statement.

### **Purchase Journal**

All invoices from publishers or other vendors with whom accounts are kept should be entered in a purchase journal. In this book, which is bound and in columnar form, provision can be made for a distribution of merchandise according to the various departments as book, stationery, and so on. The total of the purchases entered in the purchase journal is credited to the accounts payable controlling account in the general ledger. The individual items are entered in the subsidiary accounts payable ledger to the credit of the individual accounts kept with vendors.

## Sales Book

Sales slips for charge sales should be entered in a sales book. In case there are several departments in a store as book, stationery, and so on, it is a good plan to provide for entering the sales in columns according to the names of the departments. Sales slips for cash sales should be summarized by departments at the end of each day and an entry made in the cash book. At the close of the month the sales book should be footed and the total of the charge sales debited to the accounts receivable controlling account in the general ledger, a corresponding credit being made to the sales account, of accounts. The individual items should be posted to the debit of the individual customer's accounts in the accounts receivable ledger.

## SUMMARY

The "Ideal Accounting System for Retail Book Stores" accomplishes the following things:

(1) It enables the proprietor to keep in close touch with the business without carrying all of the details in his head.

(2) It provides all of the information required for making up "income tax" statements without any laborious digging.

(3) By adopting a uniform classification of accounts, it provides for the exchange of information between members.

(4) It furnishes an accurate way of arriving at the cost of doing business.

(5) A monthly balance sheet and profit and loss statement is provided for.

(6) Provision is made for showing the rate of stock turnover per annum as an index of efficiency.

(7) The system requires a detailed analysis of expenses. In case there are general departments the expenses are to be distributed in such a way as to enable the proprietor to ascertain the net profit in each department.

(8) It requires the double entry system of bookkeeping. Control can then be exercised over subsidiary customers' and vendors' ledgers.

(9) Columnar cash and sales books are required.

While it will benefit the individual members to have efficient accounting systems, the greatest good to the association will come when all of the members have "the ideal system."

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